TARGET AFFORDABILITY AND CONTROL COST GROWTH

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Excerpts from Secretary Gates January 6, 2011 Speech

- America is at war and confronts a range of future security threats, it's important not to repeat the mistakes of the past by making drastic and ill-conceived cuts to the overall defense budget.
- At the same time, it is imperative for this department to eliminate wasteful, excessive and unneeded spending, to do everything we can to make every defense dollar count.
- The goal was, and is, to sustain the U.S. military's size and strength over the long term by reinvesting those efficiency savings in force structure and other key combat capabilities.

Excerpts from Secretary Gates January 6, 2011 Speech (con't)

- Not every defense program is necessary, not every defense dollar is sacred and well spent, and that more of nearly everything is simply not sustainable.
- The Defense Department will continue to see real, albeit steadily diminishing, growth for the next three fiscal years before flattening out in the fourth and fifth year.
- What is important is to have a budget baseline with a steady, sustainable and predictable rate of growth that avoids extreme peaks and valleys in defense spending that can be enormously harmful to readiness, planning and financial management.

Mandate for Restoring Affordability and Productivity in Defense Spending (USD(AT&L) June 28, 2010 Memo)

- Deliver the warfighting capability we need for the dollars we have
- Get better buying power for warfighter and taxpayer
- Restore affordability to defense goods and services
- Improve defense industry productivity
- Remove government impediments to leanness
- Avoid program turbulence
- Maintain a vibrant and financially healthy defense industry

Obtain 2-3% net annual growth in warfighting capabilities without commensurate budget increase by identifying and eliminating unproductive or low-value-added overhead and transfer savings to warfighting capabilities. ***Do more without more***

USD(AT&L) 23 Principal Actions Addressing 5 Major Areas

- Target Affordability And Control Cost Growth
- Incentivize Productivity And Innovation In Industry
- Promote Real Competition
- Improve Tradecraft In Services Acquisition
- Reduce Non-productive Processes And Bureaucracy

USD(AT&L) Memo, September 14, 2010: "Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending"

Target Affordability And Control Cost Growth

- Mandate affordability as a requirement
- Drive productivity growth through Will Cost/Should Cost management
- Eliminate redundancy within warfighter portfolios
- Make production rates economical and hold them stable
- Set shorter program timelines and manage to them

USD(AT&L) Memo, November 3, 2010: "Implementation Directive for Better Buying Power - Obtaining Greater Efficiency and Productivity in Defense Spending"

Mandate Affordability As A Requirement Milestone A

- Affordability targets to be treated like a Key Performance Parameter (KPP)
  - Average unit acquisition cost
  - Average annual operating and support cost per unit
- Basis for pre-MS B decision making and systems engineering tradeoff analysis
- Affordability targets in context of projected resources in portfolio(s)/mission area(s) associated with program

If introducing a new program into a portfolio or mission area, components should indicate what specific adjustments will be made to absorb the

Mandate Affordability As A Requirement Milestone B

- Present systems engineering tradeoff analysis showing how cost varies as major design parameters and time to complete are traded
- Address spiral upgrades
- Establish 'Affordability Requirement' for acquisition cost and for operating and support cost in ADM and APB
  - Functional equivalent of KPP

Drive Productivity Growth Through Will Cost/Should Cost Management

- "Should Cost" targets established as management tools for all programs as they are considered for major milestone decisions
  - Use sound estimating techniques based on bottom-up assessments of what programs should cost, if reasonable efficiency and productivity enhancing efforts are undertaken
- Basis for contract negotiations/incentives and to track contractor and program executive officer/project manager performance

Additional Principal Actions

- Eliminate redundancy within warfighter portfolios
  - Component portfolio reviews for selected ACAT II and III programs to identify and eliminate redundancy
  - Annual report to USD(AT&L)
- Make production rates economical and hold them stable
  - Establish production rate change limits based on MS A or B affordability assessments
  - Deviations require USD(AT&L) review and approval prior to implementation or POM submission
- Set shorter program timelines and manage to them
  - Proposed schedule justified in cost tradeoff analysis at MS B
  - Justification part of ADM. Deviation from the schedule without prior approval could lead to MS revocation

Questions?